



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

DRAFT

Date Amended:	04/30/12	Bill No:	Assembly Bill 2014
Tax Program:	Property	Author:	Ammiano
Sponsor:	Author	Code Sections:	RTC 64.1
Related Bills:		Effective Date:	01/01/13

BILL SUMMARY

This bill requires the Legislature to convene a 15 member task force, as specified, to update the work done by the 1979 Task Force on Property Tax Administration regarding the definition of change of ownership for complex legal entities under Proposition 13.

ANALYSIS

CURRENT LAW

Change in Ownership. Under existing property tax law, real property is reassessed to its current fair market value whenever there is a “change in ownership.” (*California Constitution Article XIII A, Sec. 2; Revenue and Taxation Code Sections 60 - 69.5*)

Interests in Real Property. Revenue and Taxation Code Section 61(j) provides that change in ownership includes the transfer of any interest in real property between a corporation, partnership, or other legal entity and a shareholder, partner or any other person.

Interests in Legal Entities. Revenue and Taxation Code Section 64 sets forth the change in ownership provisions related to the purchase or transfer of ownership interests in legal entities that own real property (e.g., stock in a corporation, interests in a limited liability company, or interests in a partnership). Section 64(a) provides the general rule that transfers of interests in legal entities do not constitute changes in ownership (and, therefore, no reassessments) of the real property owned by those legal entities. However, there are two exceptions to that general rule. The first exception is when there is a “change in control” of the legal entity. The second exception is when persons that are deemed “original coowners” of the legal entity cumulatively transfer more than 50 percent of their ownership interests in that legal entity. Specifically:

- **Change in Control of Legal Entity.** Section 64(c) provides that when any person or entity obtains control through direct or indirect ownership or control of **more than 50 percent** of the voting stock of a corporation, or obtains more than a 50 percent ownership interest in any other type of legal entity, a change in ownership and reassessment of all real property owned by the acquired legal entity (and any entity under its control) will occur as of the date of the change in control.
- **Cumulative Transfers by “Original Coowners.”** Section 64(d) provides that when voting stock or other ownership interests representing **cumulatively more than 50 percent** of the total interests in a legal entity are transferred by any of

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the “original coowners”¹ in one or more transactions, the real property which was previously excluded from change in ownership under Section 62(a)(2), shall be reassessed.

Self Reporting Requirement. Existing law requires that a change in ownership statement (LEOP COS) must be filed with the BOE within 90 days of the date of the event that triggers a change in control or change in ownership of a legal entity under Section 64(c) or (d). In the case of a change in control under Section 64(c), the person or legal entity that *acquired* control of the legal entity is responsible for filing the LEOP COS. If a person or legal entity does not file the required LEOP COS within 90 days, a penalty of 10 percent of the taxes applicable to the new base year value reflecting the change in control or change in ownership of the real property owned by the legal entity shall apply.

Requirement to File Upon Request. The law requires that the BOE participate in the discovery of changes in control and ownership of legal entities under Section 64(c) and (d). To this end, the primary method is an annual inquiry of all legal entities via the state income tax return. The BOE also makes formal written requests to legal entities to investigate possible changes in ownership based on information it obtains from monitoring business publications and referrals it receives from local assessors or other sources. An entity of subject to penalty for failure to respond to the BOE. If it is later determined that a change in control or change in ownership occurred, and was not self-reported to the BOE within 90 days of the event a penalty, a penalty is imposed.

PROPOSED LAW

This bill adds Section 64.1 to the Revenue and Taxation Code to require the Legislature to convene a task force to update the work done by a task force in 1979 that provided recommendations to the Legislature regarding the definition of change of ownership for legal entities. The task force must convene its first meeting on or before June 1, 2013 and submit its report within seven months of the first meeting.

Task Force Topics. The task force is directed to examine the following issues relating to changes in ownership of real property owned by complex legal entities:

1. The availability of information.
2. The sufficiency of reporting requirements.
3. Whether current definitions are sufficient to capture the concept of change of ownership.

Task Force Members. The task force is to be composed of 15 members, as specified. In addition to the Legislative Chairs of the tax policy committees, six members of the public, and representatives of the Department of Finance, Controller’s Office, and Treasurer’s Office, the task force will include two Members from the State Board of

¹ **Proportional Ownership Interests Exclusion Creates “Original Coowner” Designation.** Under Section 62(a)(2), a transfer of real property to a legal entity does not result in a reassessment if the transfer is merely a change in the method of holding title and the proportional ownership interests in the real property are *exactly* the same before and after the transfer. However, after a transfer of real property qualifies for this exclusion from reassessment, the persons holding ownership interests in the legal entity immediately after the transfer are considered “**original coowners**” for purposes of tracking subsequent transfers by original coowners of those interests. When such transfers cumulatively exceed 50 percent, the real property previously excluded from reassessment under Section 62(a)(2), is deemed to undergo a change in ownership, and is, therefore, subject to reassessment under Section 64(d).

Equalization (BOE) and two county assessors. One BOE Member and county assessor will be appointed by the Speaker and the other will be appointed by the Senate Rules Committee.

IN GENERAL

Property Tax System. Proposition 13 approved by voters in 1978 substantially changed the property taxation system in California. In general, California's system of property taxation under Article XIII A of the State Constitution (Proposition 13) values property at its 1975 fair market value, with annual increases limited to the inflation rate, as measured by the California Consumer Price Index, or 2%, whichever is less, until the property changes ownership. At the time of the ownership change, the value of the property for property tax purposes is redetermined based on current market value.

Change in Ownership. While Proposition 13 provided that a “change in ownership” would trigger reassessment, the phrase was not defined. The Assembly Revenue and Taxation Committee appointed a special Task Force - a broad based 35-member panel that included legislative and BOE staff, county assessors, attorneys in the public and private sectors, and trade associations – to make recommendations regarding the statutory implementation of Proposition 13 including its change in ownership provisions. The Task Force findings are published in California State Assembly Publication 723, **Report of the Task Force on Property Tax Administration**, January 22, 1979. A second report, **Implementation of Proposition 13, Volume 1, Property Tax Assessment**, prepared by the Assembly Revenue and Taxation Committee, California State Assembly Publication 748, October 29, 1979, provides additional information on how changes in ownership would be determined under Proposition 13.

Property Owned by Legal Entities. One issue the Task Force faced was how to apply the change in ownership provisions of Proposition 13 to property owned by a legal entity. For instance, would a transfer of ownership interests in a legal entity that owns real property be considered a transfer of the real property interests and, thus, a change in ownership? The Task Force considered two alternatives, the “separate entity theory” and the “ultimate control theory”.

- **Separate Entity Theory.** The separate entity theory would respect the separate identity of the legal entity so that as long as the legal entity owned the real property it would not be reassessed, even if all of the ownership interests in the legal entity had transferred.
- **Ultimate Control Theory.** The ultimate control theory would look through the legal entity to determine who held the ownership interests and, thus, who had “ultimate control” of the legal entity. Under this theory, real property owned by the legal entity would be reassessed only when a single holder of ownership interests gained control of the legal entity through the acquisition of a majority of those ownership interests.

The Task Force recommended that the separate entity theory be adopted for the following two reasons:

"(a) The administrative and enforcement problems of the ultimate control approach are monumental. How is the assessor to learn when ultimate control of a corporation or partnership has changed? Moreover, when the rules are spelled out (and the Task Force actually drafted ultimate control statutes) it became

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apparent that, without trying to cheat, many taxpayers, as well as assessors, would simply not know that a change in ownership occurred. The separate entity approach is vastly simpler for taxpayers and assessors to understand, apply, and enforce. Transfers between individuals and entities, or among entities, will generally be recorded. Even if unrecorded the real property will have to be transferred (by unrecorded deed or contract of sale, for example). Taxpayers can justifiably be expected to understand that a transfer of real property is a change in ownership and must be reported to the assessor.

(b) The ripple effects of ignoring the general separate entity laws of the state could not be predicted. The ultimate control theory threatened unknown disruptions of business organizations and practices. The separate entity approach avoids that pitfall by adopting the existing structure of corporate, partnership, etc. laws and building upon them."

The change in ownership definitions relating to ownership interests in legal entities became law in 1979 and were based on the separate entity theory as recommended by the Task Force. Afterward, subdivision (c) of Section 64 was added which provided that a change in ownership occurred whenever there was a change in control by a transfer (or transfers) of more than 50% of the total ownership interests to a single person or entity.

According to **Implementation of Proposition 13**, Assembly Publication 748, subdivision (c) of Section 64, "the majority-takeover-of-corporate stock" provision, was added "out of a concern that, given the lower turnover rate of corporate property, mergers or other transfer of majority controlling ownership should result in a reappraisal of the corporation's property - an effort to maintain some parity with the increasing relative tax burden of residential property statewide, due to more rapid turnover of homes. It was also a trade-off for exempting certain transfers among 100% wholly-owned corporations²."

Tax Burden. The Task Force was concerned that because commercial and industrial property changes ownership less frequently than residential property, a shift in the tax burden to residential taxpayers could occur. The definitions originally proposed for legal entities based on the separate entity theory were chosen to mitigate administrative difficulties. Because of this concern, the Task Force proposed that the Legislature study the idea of a constitutional amendment to periodically appraise commercial and industrial property at current market value noting:

"[s]uch a constitutional change would also result in far greater simplicity in the treatment of legal entities. If commercial and industrial properties were to be periodically reappraised for reasons other than change in ownership, the difficult and controversial policy issues in choosing between the 'ultimate control' approach or 'separate entity' approach, outlined previously, would largely be avoided. The Task Force commends the principle of such a change to the Legislature for additional study."

² Section 64(b) excludes transfers of ownership interests between affiliated corporations and Section 62(a)(2) excludes transfers which result in a change in the method of holding title to real property while the proportional ownership interests remain unchanged.

Change in Ownership Discovery. Revenue and Taxation Code Section 255.7 requires that whenever a change in ownership is recorded, the county recorder must provide the assessor with a copy of the transfer ownership document as soon as possible. Assessors discover most changes in ownership of real property via grant deeds or other documents recorded with the county recorder. However, real property owned by a legal entity may undergo a change in ownership without recording a grant deed or other document that would alert the assessor that to the need for reassessment. Discovery of these types of changes in ownership, unlike transfers of real property, require self reporting by the legal entities and the BOEs direct participation.

LEOP. The law requires that the BOE participate in the discovery of changes in ownership and changes in control of legal entities under Section 64(c) and (d).

The BOE participates in this discovery task through a program called the Legal Entity Ownership Program (LEOP). The BOE's LEOP unit was created in January 1983 as a result of Chapter 1141 of the Statutes of 1981 (AB 152) to help in the discovery process. Under the LEOP, the BOE:

- Receives a list from the Franchise Tax Board (FTB) of legal entities that have reported a change in control or change in ownership on their income tax returns.
- Monitors business publications such as *Mergers & Acquisitions* and the Wall Street Journal.
- Receives referrals from assessors as a result of information obtained in local publications or business property statement filings.
- Sends a LEOP COS called a "Statement of Change in Control or Ownership of Legal Entities" to each entity.
- Analyzes completed LEOP COS's to determine whether there has been a change in control or ownership.
- Notifies county assessors of changes in control and ownership.

Annual Canvassing. There is an annual canvassing of legal entities via the state income tax return which is required by Section 64(e). The questions on the California income tax form for corporations are as follows:

J 1. For this taxable year, was there a change in control or majority ownership for this corporation or any of its subsidiaries that owned or (under certain circumstances) leased real property in California? ☐ Yes ☐ No

2. For this taxable year, did this corporation or any of its subsidiaries acquire control or majority ownership of any other legal entity that owned or (under certain circumstances) leased real property in California? ☐ Yes ☐ No

3. If this corporation or any of its subsidiaries owned or (under certain circumstances) leased real property in California, has more than 50% of the voting stock of any one of them cumulatively transferred in one or more transactions since March 1, 1975, which was not reported on a previous year's tax return? ☐ Yes ☐ No

(Penalties may apply – see instructions.)

The FTB transmits to the BOE for further investigation the names and mailing addresses of the legal entities that report a change in control and/or a change in ownership on the income tax return. The BOE then makes a formal written request to the legal entity to file a LEOP COS to determine if property it owns in California should be reassessed.

The BOE also makes formal written requests to legal entities to investigate other possible changes in ownership based on information it obtains from monitoring business publications and referrals it receives from local assessors or other sources. Additionally, at the local level, businesses are canvassed via the annual business property statement filed with the local assessor.

Consequences of Ultimate Discovery. Section 531.2(b) and 532(b)(3) provide that when it is discovered that a property should have been reassessed pursuant to Section 64(c) or (d) and the change in ownership was not reported, then “escape assessments” are levied for every tax year the property owned by the legal entity was not assessed to reflect the change in ownership.

Generally, the statute of limitations provisions on escape assessments found in Section 532 limit escape assessments for prior tax years to either four or eight years. But due to concerns with intentional concealment of legal entity change in ownerships, provisions were enacted in the late 1990’s to remove the statute of limitations to ensure there would be no financial advantage to concealing the event. Thus, Section 532(b)(3) requires that an escape assessment be made for every tax year a legal entity fails to file the change in ownership statement, as required by Section 480.1 for a Section 64(c) change in control, or Section 480.2 for a Section 64(d) change in ownership.

Guide to Change in Ownership Reporting Statutes

RTC Section	Subject <i>Click on link to view sample forms</i>
64(e)	State Income Tax Return Questions <ul style="list-style-type: none"> • Corporate – Form 100 - Question J • Partnership – Form 565 - Question T • LLC - Form 568 - Question O • Filed with FTB • FTB refers to BOE for Legal Entity Ownership Program (LEOP)
480	Change In Ownership Statement (COS) <ul style="list-style-type: none"> • Transfers of Real Property • Filed with local county assessor
480.1	LEOP COS <ul style="list-style-type: none"> • Transfers of Legal Entity Interests • Legal Entity Ownership Program (LEOP) • Change In Control under §64(c) • Filed with BOE
480.2	LEOP COS <ul style="list-style-type: none"> • Transfers of Legal Entity Interests • Legal Entity Ownership Program (LEOP) • Change In Ownership under §64(d) • Filed with BOE

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RTC Section	Subject <i>Click on link to view sample forms</i>
481	COS and PCOR – Confidentiality
482	Failure to File Penalties <ul style="list-style-type: none"> • COS - §482(a) [Penalties related to §480] • LEOP COS §482(b) [Penalties related to §§480.1 and 480.2]
483	Failure to File Penalties – Penalty Abatement <ul style="list-style-type: none"> • COS §483(a) and (b) [Penalties related to §482(a)] • LEOP COS §483(c) [Penalties related to §482(b)]

BACKGROUND

Related Legislation. Prior to legislation (1) to require annual reassessment of nonresidential property to its current market value via a constitutional amendment and (2) to redefine change in ownership as it applies to property owned by legal entities is summarized below.

Year	Bill	Summary
2011	AB 448 (Ammiano)	Change in Ownership Definitions. Reassessment of property owned by a legal entity whenever 100 percent of the ownership interests in that legal entity are sold or transferred in a three year period.
2010	AB 2492 (Ammiano) – As Amended 5/18/10	Change in Ownership Definitions. Reassessment of property owned by a legal entity whenever 100 percent of the ownership interests in that legal entity are sold or transferred in a three year period.
2010	AB 2492 (Ammiano) – As Amended 4/8/10	Change in Ownership Definitions. Reassessment of property owned by publicly traded companies once every three years (rebuttable presumption). Property owned by other types of legal entities would be reassessed to current market value in proportion to the percentage of ownership interests in the legal entity transferred.
2008	AB 2461 (Davis)	Split Roll – Revenue Estimate. Required the BOE to conduct a study on the amount of revenue that would have been generated if nonresidential commercial property, as defined, had been reassessed at its fair market value.
2005	SB 17(Escutia) -As Amended	Change in Ownership Definitions. Provides that a change in ownership occurs when more than 50% of the ownership interests in a legal entity (excluding publicly traded companies) are transferred to one or more persons or entities during a calendar year.
2005	SB 17 (Escutia) - As Introduced 12/06/04	Change in Ownership Definitions. Reassessment of property owned by publicly traded companies once every three years (rebuttable presumption). Property owned by other types of legal entities would be reassessed to current market value in proportion to the percentage of ownership interests in the legal entity transferred.
2003	SB 17(Escutia)	Change in Ownership Definitions. Redefine change in ownership for nonresidential commercial and industrial property. (Legislative intent)
2003	ACA 16 (Hancock)	Annual Reassessment. Annual reassessment of nonresidential, nonagricultural property.
2003	SBx1 3 (Escutia)	Change in Ownership Definitions. Redefine change in ownership for nonresidential commercial and industrial property. (Legislative intent)
2002	SB 1662 (Peace)	Change in Ownership Definitions. Reassessment of nonresidential property when cumulatively more than 50% of the ownership has been transferred. Broaden the state and local sales and use tax base and reduce both the state and local sales and use tax rate. (Legislative intent)
2001	AB 1013 (Leonard)	Change in Ownership Definitions. Reassessment of property owned by a legal entity when more than 50% of the ownership shares transfer.

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Year	Bill	Summary
2000	AB 2288 (Dutra)	Change in Ownership Definitions. Reassessment of property owned by legal entity once every three years - Rebuttable presumption of change in ownership. Possible income tax credit to homeowners based on fair market value of homes from additional revenue. Reduce the sales and use tax rate by 0.25 percent.
1991	SB 82 (Kopp)	Change in Ownership Definitions. Reassessment of legal entities when cumulatively more than 50% of the ownership has been transferred.

Initiatives. Various initiatives to establish a split roll have been pursued.

Year	Result	Summary
2009	Title and Summary Issued	Split Tax Rate. Increase extra .55% for nonresidential real property excluding commercial agricultural property. Homeowners' Exemption. Increase to \$14,000 Business Personal Property. Exempt first \$1,000,000 in value from assessment. (Submitted by Roberta B. Johansen and Karen Getman)
2009	Title and Summary Issued	Periodic Reappraisal. Reassessment of nonresidential real property excluding commercial agricultural property once every three years. Homeowners' Exemption. Increase to \$14,000 Business Personal Property. Exempt first \$1,000,000 in value from assessment. (Submitted by Roberta B. Johansen and Karen Getman)
2005	Dropped	Annual Reassessment. In part, requires annual reassessment of all nonresidential real property excluding property used for commercial agricultural production. (Submitted by Roberta B. Johansen and James C. Harrison)
2005	Dropped	Split Tax Rate. Increases the tax rate on commercial real property except commercial residential rental property by either .30% or .50%. (Submitted by Roberta B. Johansen and James C. Harrison)
2005	Dropped	Split Tax Rate. In part, increases the maximum tax rate from 1% to 3% on nonresidential property; counties set the actual rate at no less than 2%. Limits the 1% tax rate on residential property to the first \$2 million. (Submitted by K. Heredia)
2005	Dropped	Annual Reassessment. Annual reassessment of all nonresidential real property excluding property used for commercial agricultural production and personal property exemption of first \$500,000. (Submitted by Lenny Goldberg)
2005	Dropped	Annual Reassessment. Annual reassessment of all nonresidential real property excluding property used for commercial agricultural production and personal property exemption of first \$500,000. (Submitted by Wayne Ordos)
2004	Signatures Collected & Initiative Dropped	Split Tax Rate. Increase tax rate to 1.5% nonresidential real property excluding property used for commercial agricultural production. Proponent: California Teachers Association & Rob Reiner
1992 Prop. 167	Failed 41.16% - 58.84%.	Change in Ownership Definitions. Addressed a number of tax related items, including a provision to modify the change in ownership definitions related to legal entities. Proponent: California Tax Reform Association

Legislation to strengthen legal entity change in ownership reporting and discovery includes:

SB 507 (DeSaulnier) Stats. 2010, Chapter 708. This California Assessors' Association sponsored bill, related to legal entity change in control and change in ownership statements required to be filed with the BOE' increased from 45 to 90 the number of days a legal entity has to report a change in ownership or change in control to the BOE.

SB 816 (Ducheny) Stats. 2009, Chapter 622 This California Assessors' Association sponsored bill established penalties in Section 482 when a legal entity does not self report a change in control or change in ownership under Section 64(c) or (d) to the BOE within 45 days of the event. §§480.1, 480.2, and 482

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It also eliminated automatic penalty extinguishment when a legal entity initially failed to respond to a BOE written request to file a LEOP COS, but responded upon a second request within 60 days. §§482 and 483

SB 17 (Escutia – 2005) and SB 17 (Escutia – 2003) In addition to establishing a penalty if a legal entity does not file a LEOP COS with the BOE within 60 days after the date that a change in control or change in ownership occurs (since enacted by SB 816 in 2009), these bills would have also (1) required legal entities to provide information, records, and documents necessary to ascertain if the legal entity has undergone a change in ownership or change in control under Section 64 (c) or (d) upon the written request of the BOE or the assessor and (2) provided that the BOE or the assessor may issue subpoenas for the attendance of witnesses or the production of information or records, if any person fails to provide required information or records for the purpose of securing change in ownership information.

COMMENTS

1. **Sponsor and Purpose.** This bill is sponsored by the author to require the Legislature to convene a task force to update the work done by the 1979 Task Force, which made recommendations to the Legislature regarding the definition of change of ownership for legal entities.
2. **Recent change in ownership activity.** As noted in the Background section above, in recent years there have been many efforts to modify the change in ownership definitions for legal entities (which generally own nonresidential property). Most recently, on March 12, 2012, the Assembly Revenue and Taxation Committee held an informational meeting on “Defining a ‘Change in Ownership’: Is it Time to Reassess?” <http://arev.assembly.ca.gov/informationalhearings>
3. **This bill creates a Task Force.** The original Proposition 13 Task Force considered and debated the issue of transfers of interests in legal entities and current change in ownership definitions. The Task Force recognized the potential effect of these definitions over the long term noting “(t)he Task Force admits that some of its own recommendations, such as those regarding legal entities, while the best of a seemingly ‘no-win’ choice of options and adopted to mitigate administrative difficulties, may, in the long run, further exacerbate this [tax burden] shift to residential property because it will result in fewer potential commercial and industrial property transfers being recognized for reappraisal purposes.” Consequently, the Task Force proposed that the Legislature might later consider a constitutional change to periodically reappraise commercial and industrial property. This bill proposes to study broader issues of whether current definitions are sufficient to capture the concept of change of ownership as well as the study of the availability of information and the sufficiency of reporting requirements.
4. **What are “complex” legal entities?** A specific definition or further clarification of the meaning of this term would aid the task force in their efforts as they pursue objectives consistent with the author’s intent.
5. **“Change in Ownership” definitions.** While Proposition 13 provided that a “change in ownership” would trigger reassessment, the phrase was not defined. Statutory language defines the term “change in ownership” and details various transfers that are included or excluded from “change in ownership.” Therefore, any future

statutory amendments the task force proposes could, arguably, modify the definitions initially established.

6. **Some argue that new legal entity change in ownership definitions should be considered noting that the current system creates inequities.** Any transfer of **real property interests** by an individual results in a change in ownership absent an applicable exclusion while generally transfers **of ownership interests in a legal entity** do not result in a change in ownership of property owned by the legal entity. For example:

- Four individuals (A, B, C and D) each own a 25% interest in a property. Each time an individual sells his or her interest to another person a change in ownership of a 25% interest in the property is triggered.
- If the same property is owned by a legal entity in which the same four individuals each own a 25% interest, a sale by an individual of his or her 25% interest in the legal entity will not cause a change in ownership of the property owned by the legal entity. This is true even if there is a complete turnover of ownership interests in a single event. Only if one person obtains control of the legal entity (defined as more than 50%) will a change in ownership be triggered. This bill provides that if 100% of the ownership interests in the legal entity transfer in a single transaction, the property owned by the legal entity will be subject to reassessment as a change in ownership.

7. **Under current Proposition 13 change in ownership definitions, when companies (i.e., legal entities) that own real property are purchased, the real property owned by those companies will not necessarily be reassessed to current fair market value.**

Scenario 1: If one legal entity buys 100% of the ownership interests in another legal entity in a single transaction, then absent an exclusion, this will result in a **reassessment** of all the real property owned by the acquired legal entity. There has been a “change in control” of the acquired legal entity under Section 64(c). (The acquiring legal entity has obtained more than 50% of the ownership interest in the acquired legal entity.)

Scenario 2: On the other hand, if three **different** legal entities buy 100% of the ownership interests in that same legal entity in equal shares, there would not be a “change in control” of the acquired legal entity and therefore **no reassessment** of any of the real property owned by the acquired legal entity. This is because each new buyer only has a 33 1/3% ownership interest in the acquired legal entity and no one has control. In this example, the transaction does not meet the definition of a “change in control” and current law does not permit the reassessment of the property owned by the acquired legal entity.

In both scenarios, the acquired legal entity has entirely new owners, but only under Scenario 1 is reassessment triggered.

Date	Transaction	Reassessment
5/1/12	Scenario 1 Established Company (EC) buys 100% of the stock in Startup Company (SC) SC owns 5 properties in various locations in California SC purchased properties in 1995, 2000, 2005, 2008, 2009	EC Obtains Control of SC 100% Reassessment of all 5 properties owned by SC to their fair market value on May 1, 2012.
5/1/12	Scenario 2 Three Venture Capitalists (VC ₁ , VC ₂ , VC ₃) buy 100% of the stock in Startup Company in equal shares.	Neither VC₁, VC₂, VC₃ Obtain Control of SC No Reassessment of any property owned by SC Each of the 5 properties retain an assessed value based on the value of the property at the time it was first acquired by SC

COST ESTIMATE

The BOE would incur absorbable costs to participate in the Task Force.

REVENUE ESTIMATE

This measure would not impact state or local revenues.

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